NB

Decision No. 53610

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of PACIFIC GAS AND ELECTRIC COMPANY to carry out the terms and conditions of a contract dated June 13, 1956 with SOUTHWESTERN PORTLAND CEMENT COMPANY, and in connection therewith, issuing a certificate or certificates of public convenience and necessity to construct, operate and maintain the natural gas main as described in the application, and to exercise all required permits, easements and franchise. (Gas)	Application No. 38170
In the Matter of the Application of PACIFIC GAS AND ELECTRIC COMPANY for an order authorizing applicant to carry out the terms and conditions of a contract dated June 13, 1956, with RIVERSIDE CEMENT COMPANY. (Gas)	Application No. 38171

F. T. Searls, John C. Morrissey, Malcom A. MacKillop by F. T. Searls, for applicant;
O'Melveny & Meyers by Lauren M. Wright, for Riverside Cement Company; Donald H. Ford, for Southwestern Portland Cement Company; Enright & Elliott and Waldo A. Gillette, for Monolith Portland Cement Wallace K. Downey, for California Portland Cement Company; Bruce Renwick, H. W. Sturges, Jr., R. E. Woodbury by C. W. Wiley, for Southern California Edison Company; J. J. Deuel, for California Farm Bureau Federation; W. M. Laub and C. H. McCrea, for Southwest Gas Corporation, interested parties;
W. W. Eyers, for the Commission staff.

OPINION

Applicant's Request

By the above-entitled applications, filed on June 21, 1956, Pacific Gas and Electric Company, applicant herein, seeks an order of the Commission for the following purposes:

1. Authorizing it to carry out the terms and conditions of a contract dated June 13, 1956 with Southwestern Portland Cement

Company, hereinafter referred to as Southwestern, a copy of which is attached to Application No. 38170 as Exhibit A.

2. Authorizing it to carry out the terms and conditions of a contract dated June 13, 1956 with Riverside Cement Company, hereinafter referred to as Riverside, a copy of which is attached to Application No. 38171 as Exhibit A.

3. Finding as a fact that the present and future public convenience and necessity require the construction, operation and maintenance by Pacific of some 28 miles of gas main between Hinkley Compressor Station and Southwestern's cement plant, located approximately 2 miles north of Victorville, San Bernardino County, which main is to be located in part in the Victorville service area of Southwest Gas Corporation, and the exercise of the permits, easements and franchise which may be used or useful in connection with the construction, operation, maintenance and use of said gas main.

4. Granting a certificate of public convenience and necessity to: (a) construct, operate and maintain the said gas main, and (b) exercise the rights and privileges under the general county gas franchise granted by Ordinance No. 760 of the Board of Supervisors of the County of San Bernardino to the extent necessary to construct, operate and maintain the said gas main.

Public Hearing

After due notice, public hearing was held on these two matters on July 18 and 19, 1956, before Commissioner Ray E. Untereiner and Examiner M. W. Edwards in Los Angeles. Applicant presented eight exhibits and testimony by six witnesses in support of its requests, two of the witnesses being employees or officers of the respective cement companies. The Southwest Gas Corporation presented one witness in support of its early position as a protestant to certain portions of applicant's request, but later withdrew to the position of interested party when the applicant entered a stipulation in the record with regard to its proposed future activities within the service area of the Southwest Gas Corporation.

The Commission staff, through a gas engineer, took an active part in the hearing by cross-examination of the various witnesses for the purpose of fully developing the record as an aid to the Commission in deciding these matters. The California Farm Bureau Federation also was interested in the proceeding and cross-examined certain witnesses. After the stipulation was entered in the record, no objection was manifested to applicant's proposals.

Contract with Southwestern

The contract with Southwestern covers the sale by applicant and purchase by Southwestern of interruptible gas for operation of kilns, dryers, calciners and boilers at a rate of flow up to 1,100,000 cubic feet per hour in its plant located near Victorville, California. Applicant states that Southwestern is presently using fuel oil in the operation of its plant with the exception of some natural gas purchased from Southwest Gas Corporation, and that it proposes to convert all of its oil burning equipment for the use of interruptible gas. Southwestern further proposes and applicant is agreeable thereto, to continue to purchase from Southwest Gas Corporation and use such interruptible gas as may be required for the particular equipment now being served. Applicant estimates that Southwestern's gross annual use, exclusive of that served by Southwest Gas Corporation, will approximate 7,590,000 Mcf, making allowance for gas curtailment and for kiln shutdown.

The contract provides for payment at rates equivalent to those contained in present Schedule No. G-56 plus a monthly charge of 1.6 cents per Mcf to cover the allocated pipeline installation cost of $513,294 plus interest at 6 per cent per annum on the unpaid balance. Applicant estimates that the 1.6 cents per Mcf charge will pay off this allocated installation cost plus $80,207.82 of interest within 59 months on sales at the average rate of 632,500 Mcf per month.

The contract provides, among other things, that the initial term shall be for 10 years and shall continue in force from year to year thereafter, subject to termination by either party at the expiration of either the initial term or any subsequent contractual year; however, the full allocated installation cost must be paid by the end of the first 5-year period after the date interruptible gas is first supplied to Southwestern. Certain safeguards are provided, in case Southwestern discontinues operating its equipment, or fails to take the necessary quantity of gas to operate its equipment, or causes the contract to be canceled prior to its expiration date, to guarantee payment of the full installation cost plus interest and applicant's cost of installing and removing its service facilities.

The contract contains the usual clauses regarding liability, curtailment, interruption of delivery, standby fuel equipment and Commission jurisdiction.

Contract with Riverside

The contract with Riverside covers the sale by applicant and purchase by Riverside of interruptible gas for operation of kilns, dryers, calciners and boilers at a rate of flow up to 900,000 cubic feet per hour in its plant located at Oro Grande, approximately 6 miles north of Victorville. Applicant states that Riverside is presently using fuel oil in the operation of its equipment and proposes to convert its plant for the use of interruptible gas. Applicant estimates that Riverside's gross annual use will approximate 5,610,000 Mcf, making allowance for gas curtailment and kiln shutdown.

The contract provides for payment at rates equivalent to those contained in present Schedule No. G-56 plus a charge of

1.4 cents per Mcf to cover the allocated pipeline installation cost of $335,607 plus interest at 6 per cent per annum on the unpaid balance. Applicant estimates that the 1.4 cents per Mcf charge will pay off this allocated installation cost plus $53,131.70 of interest within 60 months on sales at the average rate of 467,500 Mcf per month.

The other conditions of the contract are substantially the same as those in the Southwestern contract. Inasmuch as the location of Riverside's plant is between Hinkley and the location of Southwestern's plant, it is not necessary to provide a separate long length of gas main to serve Riverside's plant. Only a short service connection is required, use being made of 24 miles of main pipeline jointly with Southwestern. The lower allocated cost to Riverside reflects the fact that it uses only 24 miles of the 28-mile main line and has a lesser demand than Southwestern.

Proposed Construction and Cost

Applicant proposes to install 14 miles of 12-3/4-inch outside diameter steel pipe and 14 miles of 10-3/4-inch outside diameter steel pipe between its Hinkley compressor station, located on its Topock-Milpitas 3/4-inch gas main, and the location of Southwestern's cement plant at an estimated project cost of $888,501. Applicant's Exhibit No. 5 shows the following breakdown for this cost:

Land Rights, 28 miles	$ 37,000
Structures and Improvements	1,000
Mains: 14 miles of 12-3/4-inch	382,473
14 miles of 10-3/4-inch	296,702
Measuring and Regulating Equipment	19,000
Roads and Trails	2,000
Subtotal	738,175
Overhead Construction Costs at 15%	110,726
Odorizing Equipment including Overhead Costs	4,600
Service Facilities including Overhead Costs	35,000
Total Estimated Cost of Project	888,501

Applicant's witness indicated that since the time this estimate was made the price of steel has increased by $9 per ton, in July 1956, and that the effect of this price increase may be to add some $15,000 to $20,000 to this total cost figure. Also, pursuant to the stipulation, the deliverability of the line is being increased by 500,000 cubic feet per hour to provide pressure reinforcement and increased volumes of gas to Southwest Gas Corporation's system. Southwest Gas Corporation now obtains its entire gas supply from applicant by means of a 4-inch main and its load has grown to the point where additional pressure and gas supply are needed in and around Victorville. This provides an economic means for Southwest Gas Corporation to transmit added gas to meet its load growth for which it has agreed to pay $46,034 to applicant.

The necessary money to construct the proposed project will be provided by applicant from its income and from funds in its treasury not obtained from the issue of securities and/or from such funds as it may obtain by the issue of such of applicant's stocks, bonds, notes or other evidences of indebtedness as the Commission shall hereafter, upon proper application, authorize for that purpose.

Economics of Project

Applicant estimates that service to the two cement plants will increase its gross annual revenue by $4,159,000 and its net annual revenue by $301,000. Based on estimated operations for the year 1956, assuming that these plants had been supplied for the full year, applicant estimates that its over-all system rate of return would have been increased from 5.92 to 6.0 per cent. This earning forecast is set forth in Exhibit No. 6 and may be summarized as follows:

Item	1956 Gas Department System Estimate	Adjustment for: Riverside	Adjustment for: South-western	Adjusted 1956 Gas System Estimate
Gross Operating Rev.	$186,434,000	$1,770,000	$2,389,000	$190,593,000
Expenses				
Operating	120,392,000	1,480,000	2,003,000	123,875,000
Admin.and General	6,410,000	2,000	3,000	6,415,000
Taxes	26,365,000	150,000	200,000	26,715,000
Depreciation	10,945,000	8,000	12,000	10,965,000
Total Expenses	164,112,000	1,640,000	2,218,000	167,970,000
Net for Return	22,322,000	130,000	171,000	22,623,000
Rate Base (Deprec.)	377,256,000	20,000	20,000	377,296,000
Rate of Return	5.92%	-	-	6.00%

Since applicant's Rule and Regulation No. 15, Gas Main Extensions, requires that the customer advance the cost of the extension for interruptible service, the applicant shows that its rate base will increase by only $40,000 which represents the cost of the odorizing equipment and service facilities. Applicant's plant will be increased by $848,901 for the main line to the two cement mills, plus $46,034 to increase the deliverability of gas to Southwest Gas Corporation; however, these amounts will not appear in the rate base because they will be accounted for as contributions in aid of construction. Since contributions are deducted in computing rate base, the net effect is no increase in rate base for the main line.

Applicant's proposed accounting is to charge the installation cost to Account 125, Accounts Receivable, and credit the same to Account 265, Contributions in Aid of Construction. The monthly amounts of money received by means of the surcharge will be credited in part to Account 524, Interest Revenue, for the portion equal to 6 per cent per annum interest on the remaining unpaid balance, and the balance of the monthly payment will be credited to Account 125, Accounts Receivable.

Franchise, Rights of Way and Easements

Applicant plans to lay and install the gas mains in part on private rights of way, on public highways, streets, roads and places of the County of San Bernardino. In this regard it requests a certificate of public convenience and necessity to exercise the rights and privileges under a general county franchise granted to it by Ordinance No. 760 of the Board of Supervisors of the County of San Bernardino to the extent necessary to construct, operate and maintain the project. This request was a matter of early concern to the Southwest Gas Corporation because its effect might have been to permanently separate the Victorville and Barstow service areas of said

Southwest Gas Corporation. Southwest Gas Corporation contends that this line passes through an area that has potential development possibilities, but the stipulation eased any fear that the applicant planned to develop the future firm load growth in this area.

Stipulation

The stipulation entered into the record on July 19, 1956 briefly provides as follows:

1. The applicant shall not apply to serve any additional customers of any size from the extension other than the two cement companies;

2. The applicant shall provide taps along the proposed line for Southwest Gas Corporation, at Southwest's expense, and shall agree to amendment of the definitions of Barstow and Victorville service areas in the agreement of May 23, 1955, to include such portions of Townships 8, 9 and 10 North, Range 3 West, and the easterly half of Townships 8, 9 and 10 North, Range 4 West, S.B.B. & M. as may hereafter be certificated by the Commission for Southwest Gas Corporation;

3. The applicant shall increase the deliverability of the line to the extent of 500,000 cubic feet per hour at Victorville, less the hourly deliveries from the aforesaid taps, in return for which Southwest agrees to pay the sum of $46,034.

4. Where a new interruptible customer makes application to either the applicant or Southwest for service, if said customers' estimated requirements initially are less than 2,000,000 cubic feet per day, Southwest will serve. If usage turns out to be more than 2,000,000 cubic feet per day a working arrangement is provided for Southwest to join the applicant in an application to the Commission to have said customer certified to the applicant, whereupon the title to facilities installed by Southwest to serve any such customer will be transferred to applicant at net depreciated cost to Southwest.

5. Southwest Gas Corporation shall withdraw as a protestant with respect to service to Southwestern in this proceeding.

Discussion

There are several features of the proposed services that do not appear desirable to the Commission. The Commission prefers that the term of any contract, except under exceptional circumstances, not exceed 5 years. The Commission does not favor a utility advancing money for service extensions to interruptible customers. However, applicant's contracts with these two cement companies are similar to the contract the Commission recently approved between applicant and another cement company in the area. These two contracts are more acceptable than the one heretofore approved, in that the interest rate has been increased from 4 to 6 per cent, the expected refund time has been reduced to 5 years, and the period of the contracts has been reduced from 15 to 10 years to partially meet our previously indicated objections.

The advantages and disadvantages of increasing the size of the proposed main to provide an interconnection between the applicant's "Texas" line and a new "Texas" line being installed by Southern California Gas Company and Southern Counties Gas Company of California were discussed. Applicant's witness testified that this interconnection reasonably and economically could be made at Pisgah, where the two main Texas lines cross, but offered no strenuous objection to providing interconnecting means on the pipeline with the size as proposed for whatever value it may have.

While Southwest Gas Corporation agreed to the stipulation and withdrew its appearance as a protestant, it, nevertheless, desires to continue to serve the present interruptible load plus any growth in that particular load it now is serving at Southwestern's plant. In case Southwestern ceases to use fuel oil, the load now served by Southwest Gas Corporation will probably decrease, because part of that load is for the purpose of heating the fuel oil to the required temperature for pumping to the burners. In this hearing the applicant and Southwest Gas Corporation have shown a willingness to negotiate and arrive at an understanding and the Commission will proceed on the theory that Southwestern's load will, by agreement, be split between the two gas companies in a manner consonant with their present contractual arrangement. At the present competitive price of fuel oil, Southwestern's gains will be such that it can afford to honor the position taken by Southwest Gas Corporation, and we will not let this problem stand in the way of making full interruptible gas service available to it. It is our purpose however, to preserve for Southwest its legitimate market.

Presently, Southwest Gas Corporation purchases its supply of gas under a contract with the applicant herein. This contract limits the sale of interruptible gas to 2,000,000 cubic feet per day to any single customer and the price at which it buys gas is not of a demand and commodity form but essentially a flat rate. While, at the present time Southwest Gas Corporation's firm load is not large enough to warrant a large interruptible load, it may, in the future, grow to the point where it will be desirable to develop its interruptible service to a larger extent than it has presently and it may then desire to have the Commission establish a filed resale rate schedule in lieu of the limiting contract it now has with the applicant. The Commission prefers that all service be placed on filed tariffs and that all special contract rates be eliminated in so far as practicable.

In figuring its gain in net revenue applicant computed a basic average cost of gas of 25.34 cents per Mcf and allocated 0.21 cents per Mcf for transmission line compression cost. It did not allow any transmission cost, other than the compressor fuel, on the assumption that the transmission costs are all chargeable to firm services. While applicant represented that this method of figuring costs was in accord with past practice, it would appear logical that interruptible service should pay some rental charge for using the firm services' transmission lines during off peak periods and should pay some pro rata of demand costs on out-of-state gas purchases. The record shows that the average transmission cost is 13.58 cents per Mcf for firm service alone and that this figure reduces to 6.71 cents per Mcf if the interruptible sales are considered in determining this average transmission cost. The favorable position shown for the proposed contract would largely disappear if as much as 4.5 cents per Mcf transmission cost were allocated to this service.

The record indicates that under the present level of Schedule G-56 the cement plants will enjoy an average rate of approximately 31.5 cents per Mcf for this interruptible gas. This price is equivalent to a fuel oil price of approximately $1.90 per barrel. Currently, the posted price of fuel oil is $2.10 per barrel, and when the cost of transportation of oil from Los Angeles to Victorville is added, it is apparent that at the present time the contracts are very attractive to the cement plants. While the testimony indicates that usually the cement plants can purchase fuel oil at a discount below the posted price and can transport the oil at low cost by use of dual purpose (cement and oil) trucks, in the Commission's opinion the cement plants, nevertheless, will be obtaining gas at a price below its full value of service.

Findings and Conclusions

After considering the record herein and the fact that these cement plants lie in the service area of another utility and that this other utility has, in effect, completely withdrawn its protest to the proposed construction and sale of interruptible gas, and the fact that the other undesirable features of these contracts are not so great as to warrant denial of the requests, the Commission finds and concludes that, in general, the applications should be granted. Applicant is hereby placed on notice that the service herein authorized shall not be permitted to burden its other customers.

In entering into these contracts the cement companies take the risk that interruptible gas may not be available to the extent forecast by applicant for a period as long as 10 years, and that the rates may have to be raised to the equivalent level of fuel oil or higher in the not too distant future. Another risk that the cement companies take is that the smog situation may become so bad in San Francisco, Los Angeles or other metropolitan centers that the Commission may be required, in the public interest, to reduce the available gas supplies to loads in areas not particularly subject to smog.

The Commission finds that public convenience and necessity require the construction, operation and maintenance of 28 miles of gas line between Hinkley Compressor Station and the location of the Southwestern's cement plant near Victorville, substantially as described in the applications with due allowance for an increase in deliverability of 500,000 cubic feet more gas than set forth in the applications, to serve interruptible gas to the two cement plants and resale gas to Southwest Gas Corporation, and the acquisition and use of all lands, rights of way and easements and the exercise of all rights, permits and franchises, including Ordinance No. 760 of the County of San Bernardino, to such extent as is necessary to construct, operate and maintain the proposed pipeline project.

The certificate of public convenience and necessity issued herein is subject to the following provision of law:

> That the Commission shall have no power to authorize the capitalization of the franchise involved herein or this certificate of public convenience and necessity or the right to own, operate or enjoy such franchise or certificate of public convenience and necessity in excess of the amount (exclusive of any tax or annual charge) actually paid to the State or to a political subdivision thereof as the consideration for the grant of such franchise, certificate of public convenience and necessity or right.

ORDER

The above-entitled applications having been considered, a public hearing having been held, the matter having been submitted and now being ready for decision,

IT IS HEREBY ORDERED that a certificate of public convenience and necessity be and it is granted to Pacific Gas and Electric Company to construct, operate and maintain 28 miles of gas pipeline between Hinkley Compressor Station and the location of Southwestern's cement plant near Victorville in San Bernardino County, substantially as described in the application, with due allowance for an increase in deliverability of 500,000 cubic feet more gas than set forth in the application, and requires the exercise by applicant of the right, privilege and franchise granted to it by Ordinance No. 760 of the Board of Supervisors of the County of San Bernardino to the extent necessary to construct, operate and maintain the extension and serve natural gas to the two cement plants and to the Southwest Gas Corporation.

IT IS HEREBY FURTHER ORDERED as follows:

1. That applicant be and it is authorized to carry out the terms and conditions of a written contract dated June 13, 1956 with Southwestern Portland Cement Company.

2. That applicant be and it is authorized to carry out the terms and conditions of a contract dated June 13, 1956 with Riverside Cement Company.

3. That applicant is authorized to amend the territory definition of Schedule No. G-56 to include interruptible gas service to the Southwestern and Riverside cement plants near Victorville and Oro Grande, respectively.

4. That applicant may deviate from its filed Rule and Regulation No. 15, Gas Main Extensions, in accordance with Section F

"Exceptional Cases" thereof, in order to install the gas transmission main involved substantially on the basis set forth in the two applications and in accordance with the stipulation.

5. That applicant shall file with this Commission within thirty days after the effective date of this order, three certified copies of each contract as executed.

6. Applicant shall notify this Commission in writing of the date service is first rendered under the agreements herein authorized, within thirty days after such commencement of service.

7. Applicant, within six months following the date of completion of this extension, shall file with this Commission a detailed statement of the capital costs of the added pipeline and related facilities and a summary of the accounting thereof.

8. Applicant shall notify this Commission of the dates of termination of said contracts within thirty days after said dates of termination.

9. Applicant, within thirty days after the installation cost, including interest, has been paid by the customers, shall furnish this Commission a detailed summary of the accounting thereof and, in the event that the contract is terminated in any manner prior to completion of pay out of the installation cost, an appropriate

accounting summary shall be included with the above-mentioned termination notice.

The authorization herein granted will expire if not exercised within one year from the date hereof.

The effective date of this order shall be twenty days after the date hereof.

Dated at San Francisco, California, this 21st day of August, 1956.

President

Justus F. Craemer

Rex Hardy Jr.

Commissioners

Commissioner Peter E. Mitchell Matthew J. Dooley, being necessarily absent, did not participate in the disposition of this proceeding.